

PILLAR 3 DISCLOSURE April 2018

Overview

The Capital Requirements Directive ("CRD") of the European Union created a revised regulatory capital framework governing how much capital financial services firms must retain. The rules are set out in CRD under three pillars:

- i) Pillar 1 sets out the minimum capital resource requirement firms are required to maintain to meet credit, market and operational risks;
- ii) Pillar 2 requires firms to assess firm-specific risks not covered by Pillar 1 and, where necessary, maintain additional capital' and
- iii) Pillar 3 requires firms to disclose information regarding their risk assessment process and capital resources with the aim to encourage market discipline by allowing market participants to assess key information on risk exposure and the risk assessment process.

The rules in the FCA Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") set out the provision for Pillar 3 disclosure. This document is designed to meet Church House's ("CH") Pillar 3 disclosure obligations.

Verification of disclosure

This disclosure has been prepared in order to comply with CH's regulatory obligations and provide information on risk management policies and certain capital requirements. It does not constitute a financial statement and is based on unaudited financial positions and should not be relied upon in making judgements about CH.

This disclosure will be subject to review and approval by the Board of CH. It will be published annually via CH's website, www.ch-investments.co.uk.

Scope and application of the requirements

CH is authorised and regulated by the Financial Conduct Authority ("FCA") to conduct investment business, with the permission to hold and control client money. CH is classified as an IFPRU 125k firm, or an IFPRU Limited Licence firm. This permits CH to hold client money or securities and to manage individual portfolios of investments in financial instruments.

Risk Management and Governance

The Board of CH is the governing body that is ultimately responsible for the risk management of CH and establishes the overall governance and culture of the firm. The corporate governance structure in place ensures that the oversight of risk, and relevant actions, are managed at the correct organisational level according to the level of risk and the impact of that risk occurring.

The Board has appointed an Executive Management committee which undertakes all Management functions. The Board has also appointed an Investment committee, an Audit Committee, a Risk Committee and a Remuneration

Committee. The Board and the Audit Committee review and consider a range of specific matters on a rolling annual cycle by reference to detailed calendars of events.

The Board considers and approves the level of risk to which Church House is exposed and approves the framework for reporting and mitigating those risks. The Board has delegated responsibility for the management of risk to the Risk Committee. The committee comprises of the Chairman of the Board the Operations Director and the Compliance Officer.

Capital Adequacy and ICAAP

As at 31 December 2017, CH held regulatory capital in excess of its current capital requirements. As an IFPRU €125k firm, the Pillar 1 capital requirement of CH is the greatest of:

- The pillar 1 base own funds requirement of €125k;
- The sum of the market risk capital requirement and the credit risk capital requirement; and/or
- The fixed overheads requirement ("FOR"), which is one quarter of the firm's annual fixed expenditure.

Whilst CH must maintain the Pillar 1 capital requirement at all times, the CRD requires firms to evaluate their Pillar 2 capital requirement, which is an assessment of the risks to the firm beyond Pillar 1. This assessment is the *internal capital adequacy assessment* process, or "ICAAP", which involves separate consideration of the risks to the firm's capital by virtue of the business that it undertakes.

Material Risks

Within the Pillar 2 requirement, the FCA requires CH to consider a number of different categories of risk to its business and assess which of these are material. Such material risks are then quantified to assess the additional capital required to be held by CH to mitigate the impact of such risks.

The following shows a breakdown on the firm's total available capital as at 31 March 2018:

Regulatory Capital	£000's
Common Equity Tier one capital	£2,262
Additional Tier one capital	£nil
Tier Two capital	£nil
Total capital resources	£2,262
Pillar 1 Capital resource requirement	£1,103
Pillar 2 Capital resource requirement	£1,233
Solvency Ratio	183.45%

Church House has identified the following risks as those that are material to its business:

- Market risk and loss of income
- Operational risk
- Regulatory risk
- Business risk
- Insurance risk

A probability versus impact assessment is carried out to arrive at a suitable level of capital to be held in mitigation (Pillar 2). The risks are then stress tested against various scenarios to determine if this level of capital is adequate.

Market risk and loss of income

Market risk is generally the risk of losses in the balance sheet arising from downward movements in market prices. CH's income is derived from the investment management of authorised collective investment schemes and private client portfolios. Market price risks arise from fluctuations in the value of financial instruments due to changes in market values other than those arising from currency or interest rate risk. CH itself does not hold equity investments on its balance sheet and so is not exposed to such risks.

Operational risk

This is defined as the loss resulting from inadequate or failed internal processes, people and systems or from external events. Such risks arise from failures or weaknesses in the internal systems and controls operated by CH, including information technology systems. CH operates a number of procedures and processes to mitigate operational risk and monitors these systems through management control systems and its independent compliance function.

Regulatory risk

This involves the risk of failing to meet regulatory requirements which CH is obliged to comply with. Compliance undertakes the daily responsibility of ensuring that CH remains compliant with all relevant rules and regulations within the financial industry that apply to CH, including senior management, systems and controls; conduct of business; client money; prudential and financial crime. Compliance reports directly to the Board.

Business Risk

These are defined as those risks that arise from fluctuations in the business cycle and economic conditions. The material business risk for CH is a reduction in funds under management following a market downturn or loss of clients, thereby reducing management fee revenues. Management have undertaken stress tests to assess the impact of such scenarios on the profit and loss.

Insurance Risk

This risk is that of inadequate insurance cover to cater for large claims. CH use reputable brokers with adequate expertise in financial services and review the policy cover each year.

Remuneration

CH is subject to the FCA's Remuneration Code, requiring CH to have risk-focused remuneration policies, which are consistent with and promote effective risk management and do not expose it to excessive risk. As an IFPRU firm, CH is subject to the Remuneration Code listed under SYSC 19A.

The Remuneration Code covers an individual's total remuneration, fixed and variable. CH incentivises all Code Staff (defined as those performing significant functions that have a material impact on the business) through a combination of the two.

The CH Remuneration Committee ensures that CH complies with the Remuneration Code and that our compensation arrangements:

- are consistent with and promotes sound and effective risk management;
- do not encourage excessive risk taking;
- effectively manage conflicts of interest; and
- are consistent with CH's business strategy, objectives, values and long-term interests.

The remuneration policies of CH are consistent with the nature, scope and scale of activities that it performs. The policies are reviewed no less frequently than annually by the Remuneration Committee, who consider the policies in accordance with the Remuneration Code.